

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Joint Application of )  
Questar Gas Company, the Division of )  
Public Utilities and Utah Clean Energy )  
for the Approval of the Conservation )  
Enabling Tariff Adjustment Option and )  
Accounting Orders )

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Docket No. 05-057-T01

PREFILED DIRECT TESTIMONY OF

MARY H. CLEVELAND

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

January 13, 2006

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**I. QUALIFICATIONS**2 **Q. PLEASE STATE YOUR NAME FOR THE RECORD.**3 **A.** Mary H. Cleveland4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS**  
5 **ADDRESS?**6 **A.** I am employed by the Utah Department of Commerce, Division of Public  
7 Utilities (Division). My business address is 160 East 300 South, Suite 400, Salt  
8 Lake City, Utah, 84114.

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10 **Q. WHAT IS YOUR POSITION?**11 **A.** Technical Consultant.

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13 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
14 **BACKGROUND.**15 **A.** I hold a Bachelor of Business Administration, as well as a Master of  
16 Business Administration, from the University of Missouri-Kansas City. I am a  
17 licensed Certified Public Accountant (CPA) in the state of Kansas and I am a  
18 member of the Institute of Certified Public Accountants. In addition I have  
19 attended the National Association of Regulatory Utility Commissioners  
20 (NARUC) Staff Subcommittee on Accounts meetings and have served on the  
21 NARUC Securities and Exchange Commission (SEC) Subcommittee.22 I have over twenty years of utility regulatory experience, both as a  
23 consultant and as an employee of state regulatory agencies. I have participated in

1 regulatory proceedings in the states of Alaska, Arizona, Connecticut, Kansas,  
2 Missouri, New Mexico, Ohio, Utah and Wisconsin. I have also testified before  
3 the Kansas Supreme Court. Further details regarding my background are  
4 provided in Appendix A.

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## II. PURPOSE OF TESTIMONY

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### **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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**A.** The purpose of my testimony is to describe the review process undertaken  
9 by the Division which resulted in the \$10.2 million rate decrease contained in the  
10 Joint Application. I will also address the Pipeline Safety Improvement Act  
11 Implementation Costs.

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I was primarily responsible for reviewing Questar's actual results of  
operations for the twelve months ending September 2005 and the adjustments  
thereto supporting a voluntary rate decrease offered by the Company. The  
purpose of this review was to provide some assurance that the operating results  
and the adjustments thereto provided by the Company supporting its proposed  
rate decrease were complete, accurate and in compliance with previous  
Commission orders. I was assisted by Division staff member David Thomson.

### III. REVIEW PROCESS

**Q. PLEASE DESCRIBE THE REVIEW PROCESS.**

A. Questar initially provided its adjusted results of operations, which incorporated the depreciation study, for the 12 months ending September 2005. The Division performed an independent review of Questar's adjusted results.

First, we obtained Questar Gas' detailed general ledger accounts, as well as the detailed general ledger accounts of its affiliates that were allocated to Questar Gas. In addition we obtained Questar Gas' workpapers supporting its proposed adjustments to the results of operations for the twelve months ending September 2005.

Next, we verified the results of operations to the Company's general ledger. Adjustments to general ledger accounts were also traced to the Company's general ledger to verify their accuracy and completeness. For example, we traced institutional advertising and lobbying expenses to general ledger accounts, as well as reviewed the general ledger accounts to ensure ourselves that all institutional advertising and lobbying expenses had been removed from operating results.

For those adjustments that were based on budgeted data or other assumptions (i.e. payroll), we obtained corroborative evidence supporting the assumptions used. Additionally we obtained the most recent budgeted data for the remainder of calendar year 2005 available at time of our review and updated the adjustments made by Questar accordingly.

1 All adjustments proposed by Questar were reviewed for compliance with  
2 previous Commission orders. Prior Commission orders were also reviewed to  
3 determine that all adjustments previously ordered by the Commission for the  
4 purpose of setting rates had been made. Two adjustments proposed by the  
5 Company, the amortization of previously deferred pipeline safety improvement  
6 act implementation costs and depreciation, require accounting orders.

7 Next, we tested the overall reasonableness of the results of operations for  
8 the twelve months ending September 2005. We compared operating results for  
9 the twelve months ending September 2005 to prior years to identify any  
10 irregularities. Additionally, we reviewed the detailed general ledger accounts for  
11 the 12 months ending September 2005 to identify any extraordinary items. We  
12 also examined the detailed general ledger accounts for October and November  
13 2005 for any subsequent adjustments to expenditures previously recorded during  
14 the twelve month period ending September 2005, as well to identify any  
15 significant subsequent changes to expenses on a going forward basis.

16 Additionally we reviewed changes in the Company's organizational  
17 structure that took place during 2004 and examined the accounting associated  
18 with the current organizational structure.

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1   **Q.    WOULD YOU PLEASE DESCRIBE THE CHANGES IN THE**  
2       **ORGANIZATIONAL STRUCTURE AND YOUR REVIEW OF THE**  
3       **ASSOCIATED ACCOUNTING.**

4   **A.**       During 2004, both Questar Infocom and Questar Regulated Services were  
5       merged into Questar Gas Company. Previously these were separate entities that  
6       maintained separate books and records and provided services not only to Questar  
7       Gas Company, but to other affiliated Questar entities as well. Since these entities  
8       operations are now being accounted for on Questar Gas Company's books and  
9       records, Questar is now charging the other affiliated entities for the services  
10      previously provided to them by Questar Infocom and Questar Regulated Services.  
11      We examined the allocations and direct billings from Questar to the other  
12      affiliated entities to confirm that all costs were being allocated and/or charged to  
13      the other entities as they would have been if Questar InfoCom and Questar  
14      Regulated Services were separate entities, i.e. to determine that no additional  
15      costs resulted to Questar Gas Company as a result of this organizational change.

16             We noted that the operating costs previously recorded on both Questar  
17      Infocom's and Questar Regulated Service's books and records were separately  
18      identified on Questar Gas Company's books and records. Additionally, the  
19      methodology used by Questar Gas Company to allocate and/or charge these costs  
20      to the other affiliated entities was the same as that previously used by both  
21      Questar Infocom and Questar Regulated Services to allocate their costs.

22             The merger of these two entities into Questar Gas Company also resulted  
23      in additional corporate cost being allocated to Questar Gas, i.e. the corporate costs

1           that would have been allocated to Questar Infocom and Questar Regulated  
2           Services were now being allocated to Questar Gas through the Distrigas formula.  
3           We confirmed that these additional corporate costs were also being allocated to  
4           the other affiliated entities.

5           In addition to examining the allocation methodology we also reviewed a  
6           sampling of billings from Questar Gas to the other affiliated entities.

7           Based on our examination of the methodology used by Questar Gas  
8           Company to allocate and/or charge cost to other affiliated entities as well as our  
9           review of a sampling of billings from Questar Gas to the other affiliated entities,  
10          we are comfortable that Questar Gas Company was not adversely affected by this  
11          organizational change.

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14   **Q.     HAS THE DIVISION PREVIOUSLY RECOMMENDED CHANGES TO**  
15           **QUESTAR'S RATES BASED SOLEY ON A REVIEW OF THE**  
16           **COMPANY'S PREPARED RESULTS OF OPERATIONS WITHOUT**  
17           **UNDERGOING A FULL FLEDGED RATE CASE INVESTIGATION?**

18   **A.**           Yes, this is precisely what occurred in Docket No. 97-035-03. However,  
19           in this instance the Company did not initially volunteer to lower rates, rather  
20           based on its review of Questar's filed results of operations for calendar year 1996,  
21           the Division determined that Questar was over-earning and requested a show  
22           cause. Ultimately Questar and the Division stipulated to a \$ 2.8 million dollar  
23           rate reduction.

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2 **Q. DID YOU ALSO PARTICIPATE IN DOCKET NO. 97-057-03 ON BEHALF**  
3 **OF THE DIVISION?**

4 **A.** No, at that time I was employed as an auditor for the Committee of  
5 Consumer Services.

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7 **Q. DID THE COMMITTEE CONDUCT A SIMILAR REVIEW IN DOCKET**  
8 **NO. 97-057-03?**

9 **A.** Yes, in that instance I participated with the Division in its review of  
10 Questar's operating results.

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12 **Q. HAVE YOU PARTICIPATED IN OTHER QUESTAR RATE CASES?**

13 **A.** Yes, I have performed an active role in all Questar rate filing since I was  
14 employed as a regulatory auditor with the State of Utah in October 1988. I have  
15 been primarily responsible for auditing operating expenditures and affiliated  
16 allocations and charges. In addition I also regularly review Questar Gas  
17 Company's adjusted results of operations which it files with the Division. As  
18 such I'm very familiar with the Company's books and records, allocation  
19 methodologies and organizational structure.

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1   **Q.     HOW DID THIS REVIEW DIFFER FROM A FULL FLEDGED RATE**  
2       **CASE INVESTIGATION?**

3   **A.**       Actually the review we conducted in this instance would have been done  
4       as an initial step in a full fledged rate case investigation. However, a full fledged  
5       rate case investigation would include a more detailed analysis of all accounts,  
6       including greater examination of invoices. Additionally, 100% of all affiliated  
7       charges would have been examined. However, it should be noted that the  
8       majority, in terms of dollars, of our adjustments are usually identified in our  
9       initial review. Although the more detailed analysis does identify additional  
10      adjustments, these adjustments can be offset at times by a mere tweak in the  
11      allowed rate of return.

12           Also under the current statute, one would have to determine the  
13      appropriate test year for setting rates, i.e. whether a historical test year with  
14      known and measurable adjustments or a fully forecasted test year best represents  
15      conditions in the rate setting period. In this instance the voluntary rate decrease  
16      was based on results of operations for the 12 months ending September 2005.  
17      Test year was not considered.

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19   **Q.     WOULD YOU BRIEFLY DESCRIBE THE RESULTS OF YOUR**  
20       **INDEPENDENT REVIEW IN THIS INSTANCE?**

21   **A.**       Our initial review identified approximately an additional \$ 2 million dollar  
22       decrease to Questar's initial proposed rate decrease. This additional \$ 2 million is  
23       included in the \$10.2 million dollar decrease.

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**III. PIPELINE SAFETY IMPROVEMENT ACT**  
**IMPLEMENTATION COSTS**

**Q. WHY IS AN ACCOUNTING ORDER BEING REQUESTED FOR THE  
AMORTIZATION OF PIPELINE SAFETY IMPROVEMENT ACT  
IMPLEMENTATION COSTS?**

**A.** Previously in its Order in Docket No. 04-057-03, the Commission authorized Questar Gas Company to establish a deferred account for incremental costs incurred from January 1, 2004 forward to implement the requirements of the Pipeline Safety Improvement Act. The Commission and all parties to this docket accepted the Company's proposal to defer these costs until January 1, 2007, or until the next rate case, whichever is sooner, at which time amortization would begin over a five year period.

Although, not a rate case, the current docket does adjust rates in a similar manner as would occur in a rate case, and thus the Division believes this an appropriate time to begin amortization of these costs. The sooner amortization begins, the lesser the spike in expenses in future years. This is particularly true in this instance, where compliance costs are ramping up and expected to maintain a higher level in future years. Therefore we request the Commission to amend its previously issued accounting order in Docket No. 04-057-03, to allow amortization to begin currently.

1 **IV. CONCLUSION**

2 **Q. BASED ON YOUR EXAMINATION DO YOU BELIEVE THE \$10.2**  
3 **MILLION DOLLAR DECREASE IS REASONABLE?**

4 **A.** Yes. Although this decrease is not based on a full fledged rate case  
5 investigation, if the Joint Application is approved, it will be effective January 1,  
6 2006, during a time period when customer usage is at its highest level, and thus  
7 provides an immediate benefit. Additionally, a full fledged rate case would have  
8 contained other contested issues, including the test period used to establish rates,  
9 and would not have necessarily resulted in a decrease.

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11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes.

DOCKET NO. 05-057-T01  
WITNESS: MARY H. CLEVELAND  
APPENDIX A  
PAGE 1 OF 3

RESUME  
MARY H. CLEVELAND

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EDUCATION:

BBA-Accounting: University of Missouri-Kansas City, 1971  
MBA-Accounting: University of Missouri-Kansas City, 1974

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HONORS:

Beta Gamma Sigma

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CPA STATUS:

Licensed in Kansas

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EMPLOYMENT:

Mar. 1998 to present:           Utah Division of Public Utilities  
                                          160 East 300 South, Suite 400  
                                          Salt Lake City, UT 84114

Position:           Utility Regulatory Analyst IV

Description:       Primarily responsibilities include reviewing utilities' affiliated transactions and accounting for regulated and non-regulated activities. Most recently involved in the evaluation of the ScottishPower / PacifiCorp merger. Also review gas procurement activities, participate in rate case investigations, prepare written testimony and testify before the Utah Public Service Commission.

Aug. 1991 to Mar. 1998:       Utah Committee of Consumer Services  
                                          160 East 300 South, Suite 408  
                                          Salt Lake City, UT 84114

Position:           Utility Regulatory Analyst IV

Description:       Represented residential, small commercial and agricultural customers in utility matters. Monitored, assessed and reported on current issues facing the utility industry. Planned and conducted audits of gas and electric utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Assignments included participation in the IndeGO (proposed independent system operator for the Northwest region) Pricing Work Group and Steering Committee, evaluating PacifiCorp's integrated resource planning process, participating in PacifiCorp's Demand-Side

Management Advisory Group, and assisting in the evaluation of PacifiCorp's stranded cost exposure. Also evaluated gas procurement activities of Questar Gas.

- Oct. 1998 - Aug. 1991:      Utah Division of Public Utilities  
                                         160 East 300 South  
                                         Salt Lake City, UT 84114
- Position:      Utility Rate Engineer
- Description:      Participated in audits of utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Evaluated and prepared written recommendations on utility tariff and special contract filings. Assisted in the evaluation of the PacifiCorp / Utah Power & Light merger.
- Apr. 1985 - Oct. 1998:      LMSL, Inc.  
                                         10955 Lowell  
                                         Overland Park, KS 66210
- Position:      Senior Regulatory Consultant
- Description:      Participated in rate case investigations and other special studies on behalf of state utility commissions, prepared written testimony and testified in various proceedings.
- Aug. 1983 - Apr. 1985:      Troupe Kehoe Whiteaker and Kent  
                                         800 Penn Tower Building  
                                         3100 Broadway  
                                         Kansas City, MO 64111
- Position:      Senior Regulatory Consultant
- Description:      Local CPA firm specializing in regulated industries. Work included rate case investigations, preparation of written testimony and testifying before various state regulatory commissions. Also participated in year-end financial audits of small independent telephone companies and rural electric companies and assisted in tax return preparation.
- Mar. 1981 - Aug. 1983:      Kansas Corporation Commission  
                                         Utilities Division  
                                         1500 S.W. Arrowhead Road  
                                         Topeka, KS 66604-4027
- Position:      Senior Utility Regulatory Auditor
- Description:      Planned and conducted audits of utilities in conjunction with rate case applications, prepared written testimony and served as an expert witness in rate hearings before the Commission.

Aug. 1977 - Mar. 1981: University of Kansas Medical Center  
Institutional Research & Planning / Budget Office  
3900 Rainbow Boulevard  
Kansas City, KS  
Position: Analyst / Accountant  
Description: Conducted special operational and long-range planning studies.  
Work involved programming with SPSS, SAS and Mark IV;  
program documentation and report writing.

Jun. 1973 - Aug. 1977: Midwest Research Institute  
425 Volker  
Kansas City, MO 64110  
Position: Operations Analyst  
Description: Performed operational audits and developed management  
information systems for a variety of clients. Also conducted  
workshops on long-range planning. Work involved programming  
with FORTRAN and SPSS, program documentation and report  
writing.

Apr. 1969 - Jun 1973: University of Missouri - Kansas City  
Library Accounting / Acquisitions  
5100 Rockhill Road  
Kansas City, MO 64110  
Position: Accountant  
Description: General accounting, budget preparation and fiscal reporting.

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MEMBERSHIPS:

American Institute of Certified Public Accountants.

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